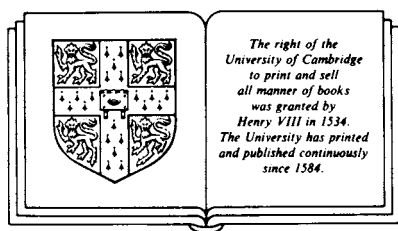


# America and the Reconstruction of Italy, 1945–1948

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To my mother and father

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# 1

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## *Introduction and overview*

### THE ITALIAN ECONOMIC PROBLEM

Soon after the collapse of the German army in April, 1945, Allied economic experts entered the industrial heartland of Northern Italy. Experts who had seen systematic German destruction in the South were stunned by the sight of Genoa, Turin, and Milan. Thanks in part to the local resistance, about 85 percent of northern plant capacity had survived, although damage varied from sector to sector. The war-related metallurgical industry had been reduced to 75 percent of its 1938 value, but losses in the wool and cotton textile sectors were a mere 0.5 percent.<sup>1</sup> Even though first impressions were comforting, calculations of physical damage revealed neither the true cost of Fascism, war, and foreign occupation, nor the size and complexity of the Italian economic problem at the time. That problem, it was generally agreed, had three fundamental and interrelated aspects.

The first and most pressing task was to restore production and employment. Industrial output stood at 29 percent of prewar levels at war's end; agricultural, at 63.3 percent. Estimates of unemployment were approximate, but most observers placed the number between two and three million in a population of forty-five million people.<sup>2</sup> Obviously, the production problem entailed much more than factory repair. The internal transportation and communications systems were shattered. Forty percent of prewar rail lines had been wrecked, along with half the country's rolling stock.

The main obstacle to increased production was lack of raw materials, especially coal. Italy had imported almost all of its coal from Germany and Britain before the war, but neither country was exporting in 1945. Italy needed foreign exchange to pay for fuel and other essential materials from other producers, but the Italian state was bankrupt at the time. Two traditional sources of hard currency, tourism and emigrant remit-

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tances, had evaporated, and the commercially vital merchant marine had ceased to exist. The imperative was to find raw materials and foreign exchange using any means available. The alternatives were starvation and collapse.

The second major task was to stabilize the internal monetary situation. Through forced saving measures, the Fascist regime had limited its recourse to the printing press early in the war. By the fall of 1942, however, the Bank of Italy could no longer reabsorb the vast purchasing power it was obliged to create at the state's behest. During the Allied bombings and great internal migration of late 1942 and early 1943, the public's need for cash increased dramatically and bank deposits were withdrawn. The system of wartime price controls collapsed, and local black markets developed in all essential commodities.<sup>3</sup>

Severe inflation began after the Allied invasion of Sicily in mid-1943. Its causes and character varied geographically. Inflation in the North was surprisingly mild due to the North's greater wealth and also to the strict controls maintained by the Germans and the Fascist puppet regime, the Italian Social Republic. By 1945, retail food prices had increased thirty-three times in Rome (liberated in June 1944) and nineteen times in Milan (liberated in April 1945). Conditions in the South were more severe. The battle lines had created an isolated economic unit out of the poorest part of the country. Into this zone, the conquering armies released a flood of overvalued paper money to pay the costs of war and occupation. Currency inflation increased demand, and severe shortages transferred income to those who controlled the market.<sup>4</sup>

The outstanding feature of the situation in April 1945 was the enormous liquidity in the hands of banks and private individuals. The money supply stood at 47 percent of the gross national product in 1945, compared to 28 percent in 1938.<sup>5</sup> The immediate tasks were to absorb this purchasing power and prevent prices from rising in proportion to the money supply. All, including the left-wing political parties, recognized that a stable currency was essential to the resumption of investment and exchange. The pernicious effects of inflation in the South were obvious, and Allied and Italian authorities hoped to avoid a similar unhappy experience in the North.

They also agreed that the Italian economic problem had a third, more basic, aspect, variously defined as historical, structural, or qualitative. The task at hand concerned not simply production and stabilization, but also reconversion and reform. In its most familiar dimension, the problem involved the long-standing disequilibrium between the North and South. The traditional problems of the South, underindustrialization, low agricultural productivity, and cultural and political backwardness, had been severely aggravated by war and occupation. The immediate

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postwar period appeared to offer the chance to address the Southern Question in some systematic way. The structural problem involved the fate of Northern industry as well. Fascist monetary stabilization and depression had reinforced the concentrated, monopolistic character of private heavy industry. During the period of autarchy, chemical, mechanical, and metallurgical giants had consolidated their market power thanks to official protection and largesse. Their ability to survive and compete in an open postwar economy was questionable, at best. The elimination of excess capacity, technical innovation, and reconversion were universally accepted imperatives in 1945.<sup>6</sup>

The Fascists had also elaborated on the long-standing tradition of state intervention in the economy. The *Istituto per la Ricostruzione Industriale* (IRI) had come to life when the great banks that controlled much of Italian industry found themselves on the verge of collapse in 1933. IRI's original purpose had been to buy up the industrial securities of the banks, then to make long-term loans to Italian industry. It was generally assumed that IRI would sell off its new properties, but this was not the case. Private capital was not available, and the state soon realized that IRI could serve to rationalize production in the heavy, war-related industries it now controlled.<sup>7</sup>

IRI reorganized its huge patrimony into subsidiary holding companies. In 1933, IRI created the *Societa Torinesi per gli Esercizi Telefonici* (STET). By 1939, STET controlled 53 percent of the country's telephones. In 1936, IRI set up Finmare to oversee the major shipping lines in its portfolio. By 1939, Finmare controlled 90 percent of Italian passenger tonnage. In 1936, IRI's long-term credit operations were transferred to the *Istituto Mobiliare Italiano* (IMI). IRI became a permanent agency and undertook a large-scale reorganization of Italian heavy industry. By 1939, IRI's Finsider holding controlled 77 percent of pig iron and 45 percent of steel production. IRI also controlled the nation's major shipbuilding, munitions, and machine industries. By 1943, IRI firms employed 300,000 workers and accounted for 20 percent of total industrial production. By 1945, this vast complex lay in ruins. As the heart of Italian war industry, IRI had borne the brunt of Allied bombing and German looting. As member firms pleaded with the government for support, the question of IRI's fate – of the principle of state intervention itself – demanded a clear response after April 1945.<sup>8</sup>

To a nation physically and psychologically ravaged by defeat, these tasks of economic renewal were a daunting yet welcome challenge. Each task required energy and intelligence, qualities Italy was fortunate to possess in abundance in 1945. Italians of passion, conviction, and ingenuity stood ready to begin the painful business of reconstruction and reform. Nor was there any lack of answers to the great economic ques-

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tions of the day. The experience of Fascism, war, and resistance had spawned several conflicting visions of the future. Marxist, Catholic, and radical interventionists all foresaw some sort of rationally ordered economy based on planning, worker participation, and income redistribution. Economists of the classical liberal school, on the other hand, favored a far-reaching transformation along strict free-market lines. Each program drew particular lessons from the country's past and had its own solutions to the problems of production, stabilization, and structural change. The historian Piero Barucci has aptly called the two years after April 1945 the "heroic" period of Italian economic reconstruction. In contrast to the years following the Christian Democratic victory and stabilization of 1948, the immediate *dopoguerra* was a moment of intellectual ferment, political debate, and widespread expectation of renewal and reform.<sup>9</sup>

The years 1945–47 likewise constituted an heroic period for the foreign economic policy of the United States and witnessed a parallel debate on the questions of postwar economic recovery. The Wilson-inspired program of Secretary of State Cordell Hull aimed to release the constructive forces of American capitalism abroad, while the New Deal liberalism of Vice-President Henry Wallace and his followers envisioned worldwide economic planning and social change. Like their Italian counterparts, American proposals drew lessons from prewar experience and proposed a comprehensive solution to postwar economic and political problems.

American planners had no illusions about Italy's relative importance. Germany and the British Empire were the crucial testing grounds of American foreign economic policy. Yet given its Fascist–mercantilist past, Italy required attention as a matter of principle. Even though America's prewar interest in Italy had been slight, Italy would, as in the immediate post–1918 period, offer new opportunities for U.S. trade and investment. Finally, following the Anglo–American occupation of Southern Italy in 1943, it was clear that the United States would bear the major financial burden of Italian relief and rehabilitation. In view of Italy's strategic location and great importance to Italian-American voters, the fate of the peninsula was too important for Italians alone to decide.<sup>10</sup>

What follows is a history of American foreign economic policy in Italy during the years 1945–48. As such, it does not treat U.S. policy comprehensively nor does it provide another version of Italian economic reconstruction. Rather, this history traces the attempt of an internally divided and politically isolated foreign policy apparatus to hammer out and implement an American approach to postwar Italian reconstruction. The story of the gradual revision and adaptation of wartime plans for Italy provides a case study in the education of early postwar policy makers to domestic and European realities and in the limits of American power and

## *Classical ideals*

pretensions in the early postwar years. The development and outcome of U.S. policy were decisively affected by the relationship of mutual dependence between the Americans and the local political class that emerged after Fascism and war. The formation of those lasting bonds, in particular between the U.S. government and the Christian Democratic Party, are a central theme of the discussion. The study does its best to avoid the twin pitfalls of determinism and counterfactual wishful thinking. Accounts of this period have tended, on one hand, to stress the inevitability and virtue of what happened or, on the other, to see the early *dopoguerra* as a tragic missed opportunity for some sort of lasting solution to Italy's historical plight. This study reaches more modest conclusions. It is hard to imagine an outcome to the Italian crisis much different from the one in fact achieved, yet the hybrid political-economic solution that emerged was neither foreseen nor really desired by any of the contending forces.

This opening chapter introduces those contending forces and their respective approaches to the Italian economic problem. The discussion also assesses the strengths and weaknesses of the postwar programs in relation to the balance of political forces in Italy and the United States. This introduction reveals the dynamics of the story contained in the body of the book, a story that begins with the Allied seizure of Southern Italy in 1943.

### CLASSICAL IDEALS

In late May 1942, Italy's most eminent economists met at the University of Pisa for a special conference on the "Economic Problems of the New Order." After six days of debate, they issued a series of official-sounding resolutions endorsing the domestic and geopolitical objectives of Mussolini. However, the conference organizers could scarcely conceal an open break within the nation's scholarly elite. The only contribution destined for acclaim was Professor Giovanni Demaria's "Il problema industriale italiano." The paper was barred from the conference publication but gained attention in a separate volume issued by Demaria and his dissident friends. Its substance appeared four years later as the introduction to the report on industry of the postwar Constituent Assembly's Economic Commission under the chairmanship of Professor Demaria himself.<sup>11</sup>

The 1942 paper was a cautiously phrased critique of autarchy. The postwar version was a magisterial condemnation of the Fascist regime. In a nostalgic re-evocation, the author described the great spurts of industrial growth between 1900 and 1914, and 1922 to 1929. Those, according to Demaria, were the "golden years" of the individual entrepreneur, of limited state intervention, and an open world economy. Modern in-



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dustry had arisen "according to pure economic principle . . . in harmony with the necessities of the time." In their misguided pursuit of autonomy, the Fascists had violated the laws of economics and condemned Italy to relative backwardness and stagnation. Why, Demaria asked, did growth of Italian per capita income compare unfavorably with that of other industrialized countries? "*In the first place,*" he argued, because of the "*failure to observe, for political-military reasons, the fundamental principle that a wide foreign trade contributes strongly to the development of national income,* a truth demonstrated not only in theory, but overwhelmingly proved by history, even by most recent history" (emphasis in original).<sup>12</sup> It was equally demonstrable that real per capita income was highest in countries with the lowest proportion of agricultural workers. Demaria's prescription emerged naturally from his historical analysis: rapid reintegration into the world economy along free-trade lines, a drastic reduction of the agricultural workforce via mass emigration, and a prompt end to activities that violated the principle of comparative costs.

Giovanni Demaria represented an honored tradition in modern Italian economic thought, the pre-Keynesian or classical liberal school that dominated academic circles in the early twentieth century, and formed a dissident stronghold at Milan's Bocconi University during the Fascist years. Other members included Luigi Einaudi, Gustavo Del Vecchio, Costantino Brescianni Turroni, and Epicarmo Corbino, all to become ministers in early postwar governments. All espoused free trade (the Italian term is *liberismo*) and abhorred outside interference in the market. The duties of the state consisted solely of balancing the budget and defending the currency in the interests of the small businessmen and farmers who formed the backbone of the economy.<sup>13</sup>

The classical liberals saw the collapse of Fascism as a heaven-sent opportunity to apply their elegantly simple recipe for the economy's short- and long-term ills. The problems of production, inflation, and structural deformation could be resolved simply and simultaneously by removing the state from the economic arena and allowing the market to do its work. Liberalization of trade and exchange would generate exports and hard currency, and dismantling price and financial controls would restore private investment and production. Increased output, along with a balanced government budget, would lead automatically to stable prices, and the end of tariff protection and government subvention would force industry to readjust on its own, according to the dictates of international competition.<sup>14</sup>

It is difficult to know whether Giovanni Demaria's manifesto crossed the desks of Washington's economic bureaucracy, but it would have aroused interest and satisfaction at the U.S. Department of State.<sup>15</sup> Demaria and the department had a similar vision of the postwar world. The

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State Department's version was inspired by Wilson's Fourteen Points, later invigorated by the Southern free trade doctrine of Secretary Cordell Hull. Hull's outlook also bore the stamp of more recent 1930s experience. He was deeply convinced that economic nationalism had caused the war. Therefore, the elimination of economic blocs was the sole guarantee of future prosperity and peace.

The Roosevelt administration's vision of the postwar era encompassed more than free trade. The Treasury Department of Henry Morgenthau, Jr., promoted a worldwide financial order based on eventual free convertibility of currencies and movement of capital. Closed currency blocs, like closed trading blocs, were destined for elimination. Washington planners designed a set of multilateral structures to provide a legal framework for the new international order. The International Monetary Fund (IMF) and the International Trade Organization (ITO) would define and enforce the liberal rules of the road, while the capstone of the system, the United Nations Organization, would provide for collective security and collaboration among the "four policemen" of the postwar world – the United States, United Kingdom, USSR, and China.<sup>16</sup>

This internationalist vision was a harmonious marriage of interests and ideals. American leaders feared a postwar depression and believed that the health of the vastly expanded U.S. economy would depend on a world open to American exports and investment. Thus, American interests in free trade and convertibility coincided with those of the entire world. Early in the war, publisher Henry Luce had popularized the notion of an "American Century" based on the benevolent imperialism of large U.S. corporations. The new multilateral institutions would give free rein to the generous expansionism of the United States, the world's pre-eminent economic power in 1945.

This corporate idealism was perfectly embodied in Hull's chief disciple, Assistant Secretary of State for Economic Affairs, William L. Clayton. Clayton was co-founder and chief stockholder of Anderson, Clayton & Company, the world's largest cotton export firm. Originally opposed to FDR, he was converted, thanks to Hull's free trade policies, contained in the 1934 Reciprocal Trade Agreements program. In announcing he would vote for the president in 1936, Clayton told the press, "A vote for Roosevelt is a vote to keep Secretary Hull in office, where his work, just beginning to bear fruit, may go forward with infinite benefit to the nation and the world." As the State Department's senior official in economic affairs after November 1944, he became a tireless exponent of the liberal creed.<sup>17</sup>

Hull's department set up a vast network of committees to study postwar problems. An August 1944 report outlined a comprehensive approach to the Italian situation. The authors of "The Treatment of Italy"

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assumed that "the economic well-being of a country [was] a primary factor in its internal stability and peaceful relations with other states." Despite Italy's poverty and low war potential, it had "been a frequent threat to the stability and peace of Europe." U.S. policy must therefore promote "reconstruction designed to create an expanding economy which will offer the Italian people genuine opportunities for economic betterment." In accordance with Hullian doctrine, the statement repudiated the notion of spheres of influence. Italy should become a stable but independent member of the European community. The statement also called for the "elimination of uneconomic activities which have grown out of concentration for war, or out of the system of autarchy." Italy must be reintegrated into a system of "multilateral and non-discriminatory foreign trade" and guaranteed all benefits from international agreements on the free exchange of labor and goods. Department planners saw the need for interim trade and exchange controls, "not in harmony with the long-term objectives," but shared the hope of Italian liberal economists that the transition from autarchy to an open world economy would be rapid and complete.<sup>18</sup>

#### INTERVENTIONISM AND REFORM

The programs of the Italian liberal economists and their Roosevelt administration counterparts reflected a similar view of recent history. From their analysis of the causes of World War II arose a common diffidence towards state intervention and controls. Yet it seemed obvious to other observers that the transformation foreseen by Demaria and his colleagues was unlikely to occur. Even a cursory examination of Italian history suggested that Demaria's interpretation was a mystification of his country's economic past. Given its lack of raw materials and capital, as well as the advanced level of prevailing technology, Italy's industrial growth had depended from the beginning on the state. Using subsidies and tariffs, the state fostered the growth of a basic infrastructure as well as modern mining, metallurgical, and mechanical industries between 1878 and 1914. When the other great protagonists of industrial growth, the mixed banks, experienced their periodic crises, the state intervened to bail them out and in the thirties to relieve them of their untenable industrial properties. Demaria might regret that state intervention had often been irrational and politically motivated, but it was useless to deny that the formation of capital had always been a "public function."<sup>19</sup>

Demaria's critique of Fascism also discounted the role of an independent international business cycle, to which the Italian economy had always been especially vulnerable. Italy's growth before 1914 and in the twenties was indeed related to open markets for its products and man-

### *Interventionism and reform*

power. The closing of those same markets after 1929 was sure to provoke a defensive readjustment by the domestic economy under the auspices of the state. Italian controls were imposed, after all, in reaction to British and American moves in 1930–33. Although unprecedented in scope, Fascist policies built on a long-standing tradition of state control.

Indeed, classical economic dogma would have relegated Italy to the status of such backward Mediterranean economies as Greece or Spain, based on subsistence agriculture and isolated labor-intensive industries. With the exception of the Lombard textile industry, Italian industrial development had not been the work of the individual entrepreneur exalted by the liberals. This is not to deny that dynamic figures like Agnelli, Donegani, or Pirelli played a vital role, but their activities were decisively aided by state protection, subsidies, and markets.

For people who held this view of Italian development, the ideas of Demaria and his colleagues bore little relevance to the short- and longer-term requirements of the economy in 1945. The possibilities for exports and emigration were bleak, and Italy at war's end cried out for public management of scarce raw materials and foreign exchange. The problem of inflation called for extraordinary measures to tax profiteers, pay for reconstruction, and restore price stability, while the advanced industrial sectors offering the best hope for future growth needed state help to survive and readapt. Indeed, why not use the techniques and instruments of intervention refined under Fascism for reconstruction and reform? In a bitter attack on the liberal Treasury Minister, Corbino, the Socialist Riccardo Lombardi would later observe, "People want to spread the idea that Nazism and Fascism were nothing more than controls and the negation of liberalism. Such judgements are blind and ignorant. Let us be clear. The instruments of public intervention . . . are not specific to Nazism and Fascism, but to every democracy and modern socialist regime."<sup>20</sup> Each of the major parties of the Italian resistance organization, the Comitato di Liberazione Nazionale (Committee of National Liberation), or CLN, held such views to varying degrees. Each party had its own ideological and political concerns, but each was determined to discipline private activity in pursuit of recovery and reform.<sup>21</sup>

The Socialist Party (PSIUP) leader, Pietro Nenni, called in 1944 for "all power to the CLNs," the local resistance committees. His colleague Rodolfo Morandi aimed to institutionalize worker's democracy in the factories as a stepping stone to a rationally managed socialist society. Their allies, the Communists (PCI), formed the heart of the armed resistance. The PCI favored special taxes, nationalization of selected industries, and basic land reform. The small Action Party of Ferruccio Parri and Ugo La Malfa bore aloft the radical liberal banner of Mazzini. The Actionists aimed to fulfill the promise of the first *risorgimento* by rooting

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out once and for all the power of church and monarchy. They foresaw a modern mixed economy with ample powers for the state.

The Christian Democratic Party (DC), heir to the pre-Fascist Popular Party, emerged under the leadership of Alcide De Gasperi in 1943. Its wartime program called for a more progressive, egalitarian society, based on land reform, social services, and parliamentary democracy. De Gasperi's party represented a loose coalition of social and economic groups – small land owners, the urban middle classes, and conservative business. However, such influential spokesmen as Giovanni Gronchi, Giuseppe Dossetti, and the young Amintore Fanfani espoused Catholic socialist or corporatist ideas. Catholic economists like Pasquale Saraceno were committed and experienced economic planners.<sup>22</sup>

The resistance coalition was divided from the beginning along political and religious lines, and those fissures could only widen once the common enemy disappeared. Yet the “Vento del Nord,” the wind of renewal from the North, seemed a force to be reckoned with in the spring of 1945. The Northern CLN's (CLNAI) Central Economic Commission drew up extensive plans for economic recovery while the CLNAI committees defended and operated most important northern industrial plants during the final stages of the war.

The division between classical liberals and interventionists in Italy corresponded to an ideological split within the American internationalist community. That loose alliance of government officials, academics, journalists, and businessmen agreed that a retreat from world power was unthinkable in 1945. However, there was less agreement as to the nature of the American dream at home or the American purpose abroad. The prospect of postwar renewal inspired Vice-President Henry Wallace's call for a world New Deal. The United States should not resist the radical and anticolonial forces released by war and Axis occupation but should aid and guide them toward universal social welfare and equality. In response to Henry Luce, Wallace and his followers espoused a “Century of the Common Man,” fostered by American largesse and based on democratic planning and reform.

All internationalists shared a basic article of faith: The social pathologies of communism and fascism would disappear in an environment of economic well-being and liberal democracy. The world New Dealers also did not deny the potential benefits of free trade and convertibility. They remembered from the thirties, however, that the interests of the banker or large corporation in open markets and stable exchanges sometimes ran counter to those of the farmer and workingman. If democratically adopted controls were necessary to maintain employment and redistribute income, such measures became the instrument of the people's will. Although aiming to recast the international system, the liberalism of

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Hull and Clayton was essentially negative. It called for new institutions whose purpose was essentially to remove barriers to the free exchange of goods, money, and labor. The evangelical "social liberalism" of the world New Deal, by contrast, was positive in content. It aimed to remake Europe and Asia by harnessing and directing the powerful impulse for social and political change.

The war gave birth to new organizations full of idealistic officials of New Deal inspiration. Wallace lost a crucial battle for control of foreign economic policy with the break-up of his agency, the Bureau of Economic Warfare (BEW) in 1943. But the BEW's successor, the Foreign Economic Administration (FEA), kept the New Deal fires burning. Its officials sought to use their control of wartime aid to promote democratic planning and reform. Wallace and others saw the United Nations Relief and Rehabilitation Administration (UNRRA), created in 1943, as the first concrete embodiment of the world New Deal. The reform spirit was shared by Treasury Secretary Morgenthau, confidant of FDR and outspoken anti-fascist. In late 1944, he dispatched the young economist Henry J. Tasca as personal representative to Rome. Tasca's duties included purging fascists from Italian financial institutions.

Progressive planners and relief specialists got first-hand experience in the FEA, UNRRA, and Allied Control Commission (ACC) in Italy, the Anglo-American body created to supervise the occupied areas. Those officials came to appreciate the need for systematic government intervention. An outstanding example was Harlan Cleveland, who, as acting vice-president of the Allied Control Commission Economic Section, and later UNRRA's deputy chief of Mission for Requirements and Distribution, became a key figure in the Allied economic bureaucracy. An article written by Cleveland in 1947 provides a sort of political manifesto in retrospect of the UNRRA mission.

Echoing Riccardo Lombardi, Cleveland noted that the "key was organization, planning and management of the country's resources in the interest of the country as a whole . . . Too many people seem to believe that there are only two alternatives – either the totalitarian methods of a Hitler . . . or the wishful, day-to-day compromises with pressures as they arise combined with a tendency to confuse democracy and the wasteful use of resources. . . ." No, Cleveland countered, there was a "middle way: to control the vital points in the economy with the consent of the people and in their interest." Those "vital points" included fuel and raw materials, food supply, foreign exchange and the state budget. He concluded, "My thesis is that the necessary planning and control are not only compatible with political democracy, but are its very basis, for inflation and low living standards are the midwives of dictatorship."<sup>23</sup>

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### FORCES OF THE STATUS QUO

Despite their political and philosophical differences, classical liberals and reformists agreed that the world they intended to create, or, in the case of the nostalgic economists, to restore, would represent a clear departure from the recent past. Each of the postwar visions was sincerely anti-fascist, and the Fascist hierarchy was destined for destruction. But the regime had been based on a coalition of elites. The church, monarchy, armed forces, and high civil service had either made peace with or actively supported Mussolini. With a few exceptions, the Italian industrial leadership had not adopted fascism as its creed and had feared its radical social impulses. But industry's official representative, the *Confindustria* (General Confederation of Italian Industry), had assiduously cultivated a close relationship with the regime, to the considerable profit of its members.

Each of these groups had serious worries after 1943. The Vatican feared the anticlerical, materialistic forces of the left and looked with suspicion on the radicals within the Christian Democratic movement. King Victor Emmanuel III was discredited in the eyes of the majority of his subjects by his association with the Fascists and his abandonment of Rome to the Germans in September 1943. Important industrialists and bankers would face charges of collaboration with the Fascists and Nazis. Business as a whole felt menaced by socialist and communist plans and had decidedly mixed feelings about the transformation envisioned by Professor Demaria. Business had opposed Fascist taxes and controls, and the *Confindustria* was prepared to declare its conversion to classical liberal doctrine, at least for tactical purposes. Such arguments were useful in fighting radical proposals and also in disassociating business from the unpleasant Fascist past. But, with the exception of textiles and a few advanced firms like FIAT, who looked forward to open world markets, the end of protection was by no means welcome to Italian industry. Another essential ingredient in Demaria's recipe, the end of state subsidies, could only damage powerful established interests.

For these pillars of the old regime, survival meant forging new alliances. The monarchy lived out the war at the behest of Churchill and the British, and other threatened groups turned to their natural allies in the United States. The American Catholic hierarchy represented the Vatican in Washington, and Roosevelt maintained contact with Pope Pius XII through his personal emissary to the Holy See, Myron Taylor.<sup>24</sup> The wartime fears of Italy's elites were also well known at the Department of State. In early 1942, Assistant Secretary of State (and former ambassador to Rome) Breckinridge Long delivered a secret message to the departing